LETTERS

ADDRESSED

TO THE PEOPLE,

ON

THE CURRENCY.

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THE CURRENCY.

LETTER, No. I.

THE question of the currency is becoming every day of more vital importance to the welfare of the country; and yet we have few leading men who appear to take any efficient interest in the subject, or from whose labours any practical result can be expected to arise. The government look for information on this momentous topic to the great capitalists, whom they suppose sufficiently practical to enlighten them, and guide them through all the labyrinths which appear to beset it. A more erroneous or fatal idea could not possess the minds of those who are to legislate for a great commercial country like England, where so many changes and ruinous monetary crises occur in a single year. The simplest individual must be aware that the true wealth of a country is its labour; that in order to reap the greatest produce of labour there must be a sufficient circulating medium; and on the steadiness of value of this same circulating medium, depends the healthy state of the country. And what can be said to be the state of health, and the results likely to follow such a fluctuation as has been experienced in the present year, when discounts have ranged from two to ten per cent. for bills of short date? The natural consequence seems teeming with destruction to all manufacturers of moderate capital; large masses of the people suddenly thrown out of employment, who, with their families, feel all the horrors of famine and utter destitution, rendered more acute by their want of moral qualities, of which, former high wages, during the plethora of cash,

have been the main cause. For those who live in manufacturing districts must be aware that high wages tempt the workmen to profligate habits; and that after the pay-day there always exists a great difficulty to get the men to work for the following two or three days, which are generally spent at the alehouse.

As such consequences have been the result of the present unbalanced state of the monetary system, is it not time that our rulers should do something more than consider, whether the labour of the country should remain unproductive, that the people should starve, and their minds, unstrengthened by education, be incapable of resisting the temptation which the possession of a few pounds presents to them? First, let us consider whence arises this excessive pulsation of the circulation. We must go back to 1825, when, from a state of plethora, Dr Peel, by a bold and reckless use of his lancet, reduced the system to such a state of exhaustion that our rulers, from that time, have been puzzled to find out why this Dr Sangrado style won't answer. The Bank of England is now become the arbitrary ruler of the commercial part of this country, from its absolute power of expanding or contracting the circulation, at the will of its directors, who are generally men of the largest private fortunes, and whose interests are totally at variance with that of the people. For whenever the screw, as it is emphatically called, is applied, and those under its operation feel that, without instant relief, ruin must ensue —then comes a rich harvest to the capitalist, who, through his bill-broker, will discount bills at an enormous interest, and which, until lately, was deemed usurious; but since it has been proclaimed no longer so, these panics in the money market have been more frequent. May we not from this naturally infer, that those who possess large capitals endeavour to raise the value of money above its true standard, and unfortunately, from the scarcity of the metallic standard, they succeed but too often; and then, by the ruin of thousands, one rich man is made still richer?

As the Bank of England supplies by its notes so large a portion of the circulation as eighteen millions, we cannot deny that a very serious responsibility rests on the Direc-

tors with regard to management; and it appears to many a question of difficulty what is the right course to pursue. We may easily conceive that, in this dilemma, self-interest must give a considerable bias. The directors of the Bank consider it necessary to hold in their coffers about one-third of their circulation in gold. Now, as foreign exchanges are continually vibrating, and gold, when higher abroad, becomes scarce at home, and demands for cash upon the Bank begin to lighten the strong chest, and prove the difficulty of their retaining the gold, then on goes the screw, with such a sudden turn, as to upset the calculations which, under anything like ordinary circumstances, would be deemed prudent, and lamentable are the consequences that ensue. Then down go exchanges abroad, home comes the gold, off comes the screw, money becomes easy, wages get up, and the rash improvident speculator is called into being, to the injury of those of the right stamp. Thus gold, the standard of our circulation, is, like fortune's foot ball, kicked here to-day, and there to-morrow, and the trade and commerce of the country losing its stability of character, and assuming a more speculative aspect.

As the evil of the present system is universally felt, and a screw loose somewhere generally acknowledged, although the why and how may not be so apparent to all, it remains to point out, if possible, some remedy. In the first place, we must look back to 1825, when the exuberance of the circulation, from the unlimited issue of one-pound notes, offered a temptation to the inexperienced to embark in wild and visionary schemes; and a facility to the unprincipled to gull the public with such fantastic bubbles, that it seemed absolutely necessary for the Government to check this gambling mania before it had produced a national bankruptcy; but most unfortunately the remedy was nearly as bad as the disease, and all but produced what it was intended to prevent. So violent was the shock of the sudden withdrawing of the one-pound notes from the circulation, and so widely spread the ruin which ensued, that this country has never since recovered her healthy tone, but has been languishing from the excessive depletion resorted to.

We may, therefore, deduce from painful experience, that as an unlimited issue of paper was a dangerous evil, productive of gambling speculations, tempting and diverting from their legitimate pursuits merchants and manufacturers, who are the mainstay of British commerce, the employers of men from whom the labour or wealth of the country is derived; so, on the other hand, the opposite extreme of too limited a circulation has greatly diminished the number of employers, and consequently not only a large portion of labour is lost, but the burden of maintaining those out of employment is very great. But this is not the only evil consequence resulting: there is also the daily uncertain state of the money market, from gold being sought after as a marketable commodity, and being, at every rise in foreign exchanges, diverted from its proper use, and temporarily withdrawn from circulation. The capitalist not only reaps a gain on the gold as an article of merchandise, but he can also, from the pressure which withdrawing the gold has occasioned, employ his surplus capital by discounting at a high rate.

Now, as a few millionaires can at will, on account of the scarcity of gold, disturb the stability of commerce, and thereby make a considerable profit from the distress they have occasioned, is it not time that some efficient check should be applied? If there is not a sufficient supply of gold for those nations who endeavour to establish cash payments, and the struggle to obtain what is already insufficient for the ordinary circulation converts a large portion of it into a marketable commodity, would it not be prudent to create a substitute for our actual wants, and that the substitute should possess some principle of locality unknown to the cosmopolite gold? And what would answer this purpose better than a Government issue of one pound, ten shilling, and five shilling notes, in such proportions as may be deemed necessary, and limited by act of Parliament to such amounts as would relieve without depreciating too much the real value of money? That there would be temporarily a slight depreciation, must be expected, but not greater than what constantly occurs under the present fluctuating system; but the stability given to the circulating

medium would infuse some vigour into the energies of the people, and the trade of the country might again flourish in renewed health.

Our legislators must view this subject with a patient and dispassionate investigation, undisturbed by the importunities of many, whose zeal, with regard to their views on the currency, has led them, in season and out of season, continually to advocate the necessity of their propositions being adopted. The insular position of this country, with its numerous colonies, the unconquerable energies of the people, give it a vast superiority over every country in the world; and there can be no reason why, with good and prudent management, it may not be the happiest. With the singular good fortune of a Queen desirous of reforming abuses, and anxious for the welfare of all the people, what obstacle is there to prevent such a result? A proper education of the people is of the first importance as conducing to their moral welfare, and an equitable adjustment of the currency, with the gradual adoption of a free trade, as a means for their physical prosperity.

No. II.

Judging from past experience, the time cannot be far distant when the Government will be compelled to grapple with the subject of the currency. The only question for the consideration of ministers is, whether they will at once courageously attempt something practical, and take the necessary steps for effecting a more equitable adjustment of the circulating medium, whilst there is time for a calm and temperate deliberation; or whether they will procrastinate until, in some critical period of imminent peril, cash payments will be suspended, and privileges will be granted to the Bank of England which ought to be retained in the hands of government, as a protection to the people. For, though the bank is considered national, yet we must bear in mind that the directors, who are large shareholders,

look first to the private interest of the proprietors of stock, which is diametrically opposite to the public welfare; inasmuch as that, when money is plentiful, the Bank will discount at a very low rate, in order to increase its profits from an extended circulation of notes; and thus a glut in the money market is the natural consequence. And again, when there is a pressure from the scarcity of money, they will draw in their notes, and refuse to discount, for fear of the demand for gold—thus increasing the distress; which shows the necessity for such an alteration of the present system as will constitute a more healthful and advantageous relationship between the bank and the public. And what would be the effect if cash payments were suspended, and the bank once more possessed the privilege of issuing one-pound notes *ad libitum?* The largest dividend that could be secured to the proprietors would be the first consideration; and as this is chiefly acquired by an extensive circulation, discounting at a very low rate would be resorted to, and the evils of 1825 would again be accumulating to overwhelm us.

When we contemplate the immense paper circulation, amounting, in bills of exchange, Bank of England and country bank-notes, &c., to about two hundred millions, and consider that, in the event of a war, or any public excitement, gold might legally be demanded for the whole, and calculate what amount of gold could be applied to this purpose, we may well be alarmed at finding that the bank cannot retain in the strong chest more than four millions—above half of which, we are told, was borrowed from the Bank of France; and out of ten millions which is supposed to be now in circulation, as a substitute for the one-pound notes, it is not probable that more than one or two millions would be in the hands of the private bankers, so as to be available.

A very intelligent writer on this subject, Mr Leathem, a banker, of Wakefield, in Yorkshire, has proposed as an improvement, that silver should be made a legal tender, in order to widen the metallic base upon which all this superstructure of paper rests. There cannot be any solid objection to this proposition; but the amount of silver would be

insufficient, as well as inconvenient, on account of its bulk. From six to eight millions of government paper would, if added to the metallic standard of gold and silver, widen the base sufficiently to encounter the danger of this superstructure being overset by trade winds and millionaire tornados. I propose that an act of Parliament should grant to the government the power of issuing immediately from the mint six millions of one-pound, ten-shilling, and five-shilling notes; with a further issue, if necessary, of four millions, limiting, in the grant, the total amount to ten millions. By this means, not only would the question of the currency be satisfactorily arranged for the convenience of the nation at large, but the people would reap the benefit accruing from the interest on the government paper, and the necessity of any fresh taxes, in the event of a war, would be avoided. The bank would also be a gainer from a larger issue of its notes; for, as its circulation must of course depend upon its ability to meet all demands with cash, the increase of the standard would afford a greater facility of doing this, and the demand for gold, which is now so constantly pressing, would almost be entirely obviated; and the security thus given to the bank would enable it to issue its notes much more extensively. But in order to prevent money from becoming too cheap, I should recommend some limit to the rate of discount, which certainly should not be less than 4 per cent.

The government must, of course, determine whether the bank requires any restriction in this point: I shall merely quote a passage from a letter of Mr Leathem's to Mr Wood, the chairman of the committee of the House of Commons, on this question:—"Another error on the part of the bank has been the formation of branches, which are so many points of attack in times of discredit; and all require deposits of bullion for their preservation. The bank has endeavoured, through these branches, to induce other joint-stock banks, as a step towards obtaining the control of the issue of notes, to give up their circulations, and adopt, instead, that of the bank; and has offered the inducement to grant a discount account for a limited number of years, at a low rate (say 3 per cent.) to the extent, in some cases,

of 300,000*l.*, when the previous circulation of notes of such bank has not exceeded 50,000*l.*: I have heard of no private banker so far degrading himself. During the last year, in the scarcity of money, which had risen to 8 per cent. and 10 per cent., and whilst the bank was straining every nerve to reduce its circulation of notes, on account of unfavourable exchanges, these privileged joint-stock banks were discounting, at full swing, through the Bank of England, to large profit, paying 3 per cent., and charging 6 and 7 per cent. To use a vulgar comparison, while the bank was driving the bung into the barrel at one end, to save the ale, a number of gimlet holes had been left open at the other end, which could not be stopped by agreement."

From this we may perceive, that although a charter of privileges has been granted to the bank, it is not in the power of any government to grant a charter of wisdom. It appears also necessary that a regulating power as to the circulation of this country should be in the hands of those who are answerable for the discretion with which it is applied. For the course which a prudent government would adopt, would be the very reverse of the Bank of England system—the issue being free in times of difficulty, and restrained when money is in abundance; for the call for money varies as to the amount, according to the price of provisions and various articles required for consumption.

No. III.

The working of the currency is governed by certain laws, which must be properly understood by those who are to legislate on the subject, or otherwise it must be all haphazard, troublesome in operation, and ruinous in the result. In the first place, money owes its existence to the commencement of civilization; and was, at first, ponderous and inconvenient, but suited to the primitive wants of mankind; then as civilization progressed, the ingenuity of

man was exerted to render it still more commodious, until, by successive improvements, we have arrived at our present state, which would be as perfect as we could wish if the ruling powers understood the question more thoroughly; and if, in their wish to be better informed, they did not apply for advice to those who are interested in leading them wrong. Let us consider the different classes of the people separately, their various wants, and the present system of the currency as applied to those wants. The people are divided into agricultural and manufacturing classes in various branches, merchants, professional men, and those whose possessions enable them to live without any kind of labour.

Gold is the standard upon which all the different kinds of representatives of real value are measured and based. The first and most numerous species of the representative are bills of exchange, which are used chiefly by merchants and manufacturers; these are drawn generally at three months; they pass by indorsement, and are calculated by Mr Leathem to amount to 528,493,842*l.* in one year, which when divided by four will give the amount at one time in circulation—viz., 132,123,460*l.* The next species are the Bank of England and country bank notes to the amount of 34,000,000—viz., 17,000,000 Bank of England, 12,000,000 English country bank, and 5,000,000 Ireland and Scotland bank paper; and this bank paper *en masse* forms a fictitious and insecure basis for the formidable amount of bill circulation. In justice to the country banks we must here remark, that the insecurity of the base is by no means applicable to them, and that their part of the base, which is very small (nearly all bills being payable in London) is perfectly steady; and with regard to the circulation of country banks, nothing can be more healthy and better regulated, as the credit of each country bank forms for itself a circle, smaller or more extended according to the opinion of the neighbourhood as to its stability, and beyond which circle there is no passing; and the issuing of more notes than what are absolutely required in this circle would be only attended with risk and expense to the banker, as the notes would return upon them through the neighbour-

ing banks, and the balance of the mutual exchange must be paid over in London.

The Bank of England notes are the shifting part of the base, from their fluctuating principle of ebbing and flowing, spring and neap, ocean-like system, being influenced (instead of the moon) by foreign exchanges, or the price of gold, which is the narrow and only legitimate base upon which the whole superstructure rests; and this not secure but shifting, from the fact that, as in England the value is regulated by a steady and uniform price, in foreign countries as much as 15 per cent. may be frequently realized by sending gold. It appears a complete absurdity for the bank to fancy this can be prevented; the screw may be clapt on, and the trade of the country may be ruined, but the large capitalist will still extract the gold, which always obeys the laws of gravitation, and is found where the price is heaviest; and as long as the bank of England issue notes, and those notes are payable in gold alone, not all the wit of the directors can devise a plan to retain the gold in England when it is worth much more elsewhere.

Having shown the amount and use of bills of exchange, their dependence upon the Bank of England paper, which, under the present method, is like the shifting sands, we will make a few more observations on the issue of Country Banks, and the great benefit they confer upon the country, which, without this assistance, would have a most imperfect circulation, and the local trade would not have that fostering aid which it now receives through the country banker. The farmer has no means of obtaining assistance except from the country banker, from whom seasonable advances are received, without any other security than a joint note of hand; and it is in the purchase of corn, cattle, &c., that country notes are principally employed, being too large for the payment of wages in manufacturing districts; gold and silver supply the smaller portion of the currency, and are made to minister to the daily wants of the people. The gold thus in circulation is estimated at about 20,000,000*l*., and all the gold not in actual circulation does not amount to 6,000,000*l*., and which is now daily diminishing; and what is the amount of our liabilities in case any

excitement should arise in the country? First, bills of exchange estimated by the latest account to be 135,000,000*l.*, Bank of England 17,000,000*l.*, bank deposits 7,000,000*l.*, exchequer bills bearing interest, which is another species of circulation peculiar only to London, and held frequently by country bankers in the hands of their London agents, on account of the great facility of their being instantly turned into cash when occasion requires; these amount to 17,000,000*l.*; country bank paper of England, Scotland, and Ireland, amounts to 17,000,000*l.*; country bank deposits, 20,000,000*l.*; savings' bank deposits, 22,000,000*l.* —consisting in one total sum of 235,000,000*l.*—rather an inconvenient amount to be answered by 5 or 6,000,000*l.*, and which would require a very different arithmetic in the settlement from that now taught in the schools.

No man in his senses can suppose that, should any public excitement occur, the Bank of England could continue cash payments; it therefore becomes a matter of some little moment to all those who are anxious for the well-being and prosperity of the country, that precautionary measures should speedily be taken to prevent this unlimited power, which the suspending of cash payments would give, being placed in the hands of a private company, who would most assuredly consider their private emolument before the public good; but by its being retained in the hands of the government, who would be responsible to the people for their watchful and legislative prudence, not only would the interests of the people be secured, and the trade of the country increased, by the so-much-desired steadiness of prices and value of money, but the bank would reap an advantage from its increased security at not having the gold forced from its coffers at every rise in foreign exchanges; and from its interest not being so isolated, its public usefulness would soon be apparent.

We much regret that undue influence which the bank appears to exercise over the members of the government; and the account given in the *Times* of Monday, the 19th of October, of the bargain made by the bank at the time government required 20,000,000*l.* for the West Indian affair, in which transaction it was arranged that 3½ per cent.

should be allowed for prompt payment of the money; although the loan was not immediately wanted, but was to remain with the Bank of England until the different claims were proved and adjusted. The bank thus gained 3¾ per cent. upon its share of the loan, without a shilling passing over the counter.

Another feature in this affair was the bank discounts being lowered to 3½ per cent., so as to allow any of the directors to gain ¾ per cent. upon what they might choose to subscribe to the loan. It is to be hoped that this will be a lesson to the government (although it is dearly paid for) that their friends in the city are not to be trusted too far.

We will conclude with a passing mention of an article in the *Morning Chronicle*, showing the apathetic and cold-blooded manner in which the threatened ruin of the trade of the country is there treated :—" Bank of England, Oct. 15, 1840. At a Court of Directors, held this day, — Resolved, that, until further notice, the Bank of England will not discount bills of exchange or notes having more than sixty-five days to run."

The *Morning Chronicle*, after lauding this measure, proceeds to observe—" The step now acted upon cannot fail to produce a very powerful stringent effect, stopping speculation, and forcing down prices, so as to operate favourably on foreign exchanges. If the rate of discount had only been increased 1 per cent., and bills discounted, as formerly, at more than two months to run, speculators who expected to realize 15 per cent. in a few months, would not have hesitated to pay the price; but by limiting the running of discount-paper to sixty-five days, the range of time becomes so seriously diminished, and the necessity of renewal so frequent and onerous, that much more consideration will be used before embarking in mercantile adventure. The immediate effect on the London money-market will be to throw an immense deal of additional business to the discount brokers, who will negotiate sixty-five days' bills, probably, at 5 per cent. and ¼ commission (equal to 6½ per cent.), but will exact much higher terms for paper drawn at longer dates, or having a longer time to run. Operations connected with the trade and commerce

of our Indian empire and colonial dependencies will be severely cramped."

Who is there that can patiently listen to such false reasoning? If 15 per cent. can be realised in a few months, is it probable that speculators would be checked by having to draw two bills within the time instead of one? And how does the range of time become so seriously diminished, and the necessity of renewal so frequent and onerous? Sixty-five days is not so small a fraction of a few months; the renewal in a few months cannot be so very frequent; the onerous part of the business, viz., the payment of stamp and commission to the broker, is not so very terrible to the man about to make 15 per cent. upon his money. It becomes a calculation of £. *s.* *d.* with the speculator, and no measures of the bank can prevent gold being exported, if money is to be gained by it. These stringent measures may diminish the profit, but will not stop the speculation.

The *Chronicle* continues the same style of argument in approval of the bank measures, and then coolly remarks,—"The announcement, however, of this measure will be received with some surprise throughout the country, and must touch with severity upon various branches of our inland trade, nor will the continental trade escape its efficacy." Who can read this without indignation and astonishment? We are just before told the colonial and continental trade must suffer; we are next mildly informed of the severe effects to be expected by the inland trade. The whole country is thus to be put under water to serve the purposes of the Bank of England; because the Bank of England and the money speculators are having a trial of strength, the inland trade, the colonial trade, the continental trade, which constitute, in fact, the whole country, must suffer. These leviathans are contending, and by their unwieldly evolutions thousands perish.

Why do not the government step forward manfully, and rescue the country from this wretched thraldom? Why not at once, before the crisis arrives—for arrive sooner or later it must—relieve the trade by a certain issue of government notes not exceeding one pound? This would sufficiently extend the circulation, give it the wished-for steadiness in

point of value, increase the profits of the Bank of England, place funds in the hands of the government, which would obviate the necessity of fresh taxes, and in every way invigorate the country.

No. IV.

What have the government done with regard to the present state of the circulation, and what do they intend doing? There has been a committee of the House of Commons appointed for the purpose of investigating thoroughly all evidence from which information upon this subject may be elicited; but among this committee there appear the names of Bank of England directors; also among the witnesses examined there are bank directors. This is a system of inquiry, we must confess, not quite clear to us. "When Greek meets Greek, then comes the tug of war," cannot here very appropriately be exclaimed. The examiners and the examined stand not in any such desperate relation towards each other. Who supposes that the examiners would endeavour to elicit any evidence which they might consider detrimental to their own interests? We must confess, that in the present age, when all wisdom is calculated by pounds, shillings, and pence, and by the care which each takes for his own peculiar interest, we have no intention of ascribing such downright insanity to any body of men; nor do we in the least wish to insinuate that the bank directors are so degenerate as to make the public welfare a primary consideration: and as we have in a former letter pointed out how very opposite, according to the present system, are the interests of the public and the Bank of England, we must say that it is not with any feelings of approval we read all the names of those selected as the committee of inquiry. It may probably be said that the majority of the committee had no connexion or concern with the bank, were not even in possession of bank stock, yet we don't require much experience to convince

us how easily the novice is led by those who are *au fait* upon the subject in discussion, and that the influence of one or two well versed in all the minutiæ and technicalities attendant, will render the inquiry little more than a farce, deficient in humour, and redolent in the dulness of calculations upon pounds, shillings, and pence.

Having frequently adverted to the clashing interest of the commercial body and the bank, from the unwise regulations of the currency, it may, perhaps, be asked, How can the bank help this? What has the poor innocent bank to do with the legislation? Would you have the bank continue to discount and issue more paper, and assist the public at the needful pinch, when at that very time her specie is daily diminishing, and there is an imminent peril of a stoppage? To the last query, certainly not; but these are questions which are generally put together in a string to lead the people astray, and distract the attention from the right position.

We will take the second question first, and stoutly maintain that the Bank of England possesses more influence with the members of the government than is either profitable or safe for the people. As merchants in the city of London the country at large know little of the directors of the Bank of England; but as bankers, there is much reason to fear they are not very enlightened.

Mr Leatham, of Wakefield, tells us he has been a banker for thirty years, and yet finds he has something more to learn; then, how much more must the directors of the bank have to learn, who have not given the vigorous application of their youth to obtain this knowledge; but in matured years, when all their opinions are pretty well fixed and rooted, they are placed temporarily in this position; and, unhappily for the nation, the government place too much reliance on the experience of those *soi disant* bankers.

We will now take the first question of—How the bank can help this, and what they should do? First, the directors should read Mr Symons's pamphlet on 'Popular Economy,' and they will there find in the preface these words, which ought to be written in letters of gold:—"Certain am I that society will never realize its capacities for improvement

until the truth be far more widely and deeply felt, that philanthropy is the life-spring of physical prosperity, and that neither classes nor countries have really separate interests."

After reading this, let them ponder well, and consider if there is not some method by which the now divided interest of bank and public can be cemented into a permanent union; for the same adjustment that would protect the bank against the operation of the speculators in gold making sudden demands upon the strong chest, would give it a power of assisting the public by an increased issue, and with an increased profit to itself; thus the advantage would be mutual. The importance to the government, also, of an issue of one-pound notes must be apparent to all those who know the present critical state of affairs, and the impossibility of increasing the taxes with any degree of safety. It remains for the House of Commons to determine whether such a power is safe in the hands of government. We can only say, we think it would be safer in the hands of those who are responsible to the people than in the hands of bank directors, who only care for the profit to be divided among the holders of bank stock. It has been urged, that the members of the government are not responsible enough to the people, to be trusted with so much power as this paper issue would give them. This is no argument against the measure proposed, but an urgent motive for the purification and improvement of the representative system, without which, neither this nor any other administrative measure can be beneficially realized.

It has been also argued by the same persons, that either the government should have the sole power of issue for the whole nation, or that a free trade in banking should at once be granted, and an issue *ad libitum* should be allowed to all. We must say that we look upon these plans as we should upon Scylla and Charybdis, although we should rather prefer the general to the government issue; and if government cannot be trusted with a limited issue of one-pound notes, how can it be trusted with an unlimited issue of notes for the whole kingdom? Mr Leatham very justly remarks, that in this case the government paper would either be all in credit or discredit.

The general issue has been already tried, and proved to be unsound. We only propose a middle course, that the government should watch the stream of the currency as it flows past them; and when it appears shallow and diminished, let the tributary mint paper be poured into it; and when it seems inclined to overflow its banks, then cut off the supply and open the sluices. This is the office we would assign the government; and if it performs this duty honestly and skilfully, we have much confidence in the result; but if the government cannot be trusted, it is useless to talk of this or any other alteration to be made, until the executive machinery of the country be first set right, for this is the propelling power by which all the parts are kept in motion.

Every one is ready to acknowledge the present unsound state of the currency. Many say it is a most difficult subject to understand—that something must be done: but what is to be done, or who is to do it, appears a sort of riddle to the expectant people. The government, distracted by the various theories of those who profess to understand most upon this question, think they have done quite enough in having the matter investigated by a committee of the House of Commons; and thus the subject is likely to rest, until a public crisis occurs, or some of the people's representatives, with more energy and judgment than the *masse*, perseveringly compel the adoption of some salutary measure.

No. V.

Having given our opinions on the currency according to our experience in its periodic changes, &c., and what share the Bank of England has in these operations, we will now take a look at a large volume of evidences, published by the committee of the House of Commons as the result of their inquiry, and see what useful information can be extracted and laid before the public in a more condensed form.

The first person examined by the committee is Mr J. B. Smith, chairman of the Chamber of Commerce at Manchester, and a director of the Manchester Joint Stock Bank; and when having declared his opinion of the prosperous state of trade in 1835, and being asked to give some statement why this prosperity and tranquillity was so much disturbed in 1836, he gives the following as from the Chamber of Commerce:—

"We complain that the administration of the bank is not founded on any fixed and settled principles, so that the public may be enabled at all times to estimate with some degree of certainty the value of their property, and that merchants and traders may also be enabled to calculate with some degree of certainty upon the success of their enterprises as regulated by the law of supply and demand. The operations of the Bank of England since 1835 afford a striking exemplification that calculations, based upon the most enlarged experience, afford no security against loss or failure from its forced expansions and contractions of the currency. Early in August of the year 1835, the bank issued a notice, offering to make advances on exchequer bills, India bonds, stock, and other approved securities, at 3½ per cent., her previous rate of interest for similar advances being 4 per cent. These notices were renewed from time to time during an uninterrupted period of eight months. The advances made by the bank on securities, which in June, 1835, amounted to 25,678,000*l.*, were increased to 31,954,000*l.* in January, 1836. This enormous addition to her loans in so short a period, laid the foundation for that excessive stimulus to trade and speculation which prevailed in 1836, and which manifested itself in the mania for the innumerable joint stock associations which were formed at that period."

Mr Smith then says, that, from having had but a short notice of the intention of the committee to call upon him, he had not time to procure such facts as would have conclusively proved the inordinate spirit of speculation which was then called into existence, but mentions that, with regard to railways, foreign loans, &c.,—in 1834 one railway, three foreign loans, and nine joint stock banks were created;

in 1835, three railways, two foreign loans, and nine joint stock banks were added; but in 1836, twenty-one railways, two foreign loans, and forty-seven joint stock banks were created. "The advance in the prices of commodities induced by the excessive loans of the Bank of England led to a demand for specie for exportation, and obliged the bank to raise its rate of interest in July to 4½ per cent., and in August to 5 per cent., and at the same time to reduce its loans by rejecting all bills drawn or endorsed by joint stock banks of issue and bills drawn upon the Anglo-American houses. The result of these measures was great commercial embarrassment and general discredit, both in this and foreign countries. At the close of 1836 the stock of bullion in the bank had fallen to little more than 4,000,000*l*., whilst at the same time it was indebted to the world upwards of 30,000,000*l*. for its circulation and deposits; and its loans, which in January, 1836, amounted to 31,954,000*l*., were reduced in December to 28,971,000*l*. The effects of this sudden contraction of the currency were to produce alarm, panic, and disastrous losses to the whole mercantile and trading community; the prices of most commodities fell to the lowest point to which they had been known to recede for a great number of years; the Manchester Chamber of Commerce estimate the amount of losses incurred through the panic of 1836-7, on the five great articles of cotton, woollen, silk, linen, and hardware, to be at least 40,000,000*l*., independently of the moral and social evils inflicted upon the labouring classes by suddenly depriving them of employment, and subjecting them to the greatest privations." Mr Smith next states that the originating causes of the more recent commercial pressure were the succession of two bad harvests; the present corn-laws, by preventing a regular and mutual exchange of corn for manufacture with other countries at all times, obliges us in periods of scarcity to export bullion as the only medium of payment for foreign grain. Under a natural system of trade no such drain for specie would occur in payment for the corn, any more than it is found to arise in exchange for tea, cotton, or silk; the trade in grain becomes an exception to the ordinary rules of commerce, and all such

sudden and extraordinary purchases are necessarily paid for in bullion. The directors of the Bank of England are supposed to be cognizant of the operation of our corn-laws, and yet in the face of an ascertained failing harvest, they offered advances in November, 1838, at the low rate of 3½ per cent., repayable in January following, upon the usual securities, including stock. Notwithstanding the commercial crisis in Belgium and France, and the drain which had commenced upon its stock of bullion, the bank, in February, 1839, again offered loans on all kinds of securities, including stock, at the low rate of 3½ per cent., to be repaid in April following. The bank now becoming alarmed at the drain for bullion, suddenly raised the rate of interest to 5 per cent. on the 16th of May, 1839; on the 20th of June it was raised to 5½ per cent., and on the 1st of August it was fixed at the unprecedented rate of 6 per cent. Up to this period the bank had constantly increased its loans; in December, 1838, they amounted to 20,707,000*l.*; in September,, 1839, they reached 25,936,000*l.*; whilst in the same period its bullion had diminished from 9,362,000*l.* to 2,816,000*l.* From September the bank rapidly retraced her steps; and by December, a period of three months, she reduced her loans by as great an amount as it had taken her seven months to increase them; thus aggravating, by these forced expansions and contractions of the currency, whilst a drain for gold to pay for imports of foreign grain was in operation, the natural evils entailed upon the community by the present corn-law." This is the sum of Mr Smith's statement; after which he undergoes a cross-examination, the substance of which shall be contained in our next letter.

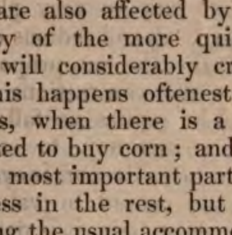
No. VI.

THE cross-examination of Mr Smith does not elicit anything that materially affects the validity of his statement. When asked at what period the circulation of the bank was

at the highest from the year 1835, he answers—"The highest point of circulation appears to be in April;" he then acknowledges that the circulation gradually decreased to the 10th January, 1836, but very satisfactorily accounts for the diminution of 1,200,000*l*. in the paper circulation by an addition to the deposits of 7,608,000*l*. paid in on account of the West India loan, the increase to the bullion being only 785,000*l*.: thus the balance, or the deposits minus the bullion, was withdrawn from the notes in active circulation; the greater part of which were again forced out in loans on securities at a low rate of interest; and we find the increase in the securities amount to 5,710,000*l*. This very naturally caused a glut in the money market, and entailed all those crude speculations upon the public which have been so detrimental to the trade of the country; for we know that it is not the large amount of money in circulation which alone causes mischief, but the low rate of interest and easiness of obtaining money: for a high rate and low rate of interest may each arise from two distinct causes. In the first place, a high rate of interest may arise from too much contraction in the currency; and, in the next, from the flourishing state of trade, and an eligible investment being easily obtained: and a low rate may arise from too great an expansion of the currency, or from the commerce of the country being so far ruined by these sudden changes, that anything like a certain interest, however low, seems preferable to the risk of trade.

Mr Smith is very minutely examined as to what he understands by the word currency, and what by circulation; and we must confess that he was not very clear in his explanation, nor do we think that the questions were exactly to the point, as the difference of meaning might very easily have been shown, without so protracted an examination. Currency is simply what is current or passable, either universally or partially; the only portion of the currency which is universally current is gold, and the other parts are more or less passable, according to the degree of credit attached to these parts: Bank of England

notes ranking next to gold; then country bank paper, bills of exchange, and deposits; and although bank deposits are equal in value to bank notes, they are far slower in circulation. The circulation means the degree of velocity with which the currency is propelled—that is, the different parts; and these are also affected by each other—as, for example, a scarcity of the more quickly circulating part, viz., the gold, will considerably cramp the movement of the rest; and this happens oftenest when it is most severely felt,—that is, when there is a bad harvest, and gold must be exported to buy corn; and not only is there a deficiency in this most important part of the currency causing a sluggishness in the rest, but the bank at the same time, by refusing the usual accommodation, makes the pressure still greater. This shows us the necessity of creating some substitute to supply the place of gold in the currency. We will endeavour to illustrate our ideas of the currency by the following figure, which is composed of wheel within wheel, going at different rates; and these wheels signify the circulation, or rate at which the different wheels revolve, which action circulates the currency contained.



The inner circle, containing the deposits, circulates very slowly; for as cheques upon deposits are current according to the proprietor's stability and credit; and the fact of their increasing and diminishing; also that, as one deposit vanishes, another appears,—proves that they circulate, however slow may be the movement. The next wheel, which moves quicker, contains bills of exchange, which are in constant circulation to the amount of 135,000,000*l*. Then come Bank of England and country bank notes: the amount in circulation, which is much quicker than the two inner circles, depends greatly

upon the amount of gold, which is contained in the outer circle, and circulates with the greatest rapidity.

Mr Smith is right when he asserts that deposits circulate; but when he calls deposits currency, and currency circulation, some little explanation is necessary, to prevent others from misunderstanding what may be very plain to Mr Smith's mind. After a very long and tedious examination, Mr Smith is asked whether he can propose any means by which those expansions and contractions of the currency may be prevented; and he replies as follows:— "I think it most desirable in a currency, to establish uniformity in value; assuming a metallic currency to be the best adapted to preserve uniformity in value and greater steadiness of trade than any other, it is desirable, in any change in our existing system, to approximate as nearly as possible to the operation of a metallic currency. It is desirable, also, to divest the plan of all mystery, and to make it so plain and simple, that it may be easily understood by all. The plan I would suggest for consideration is the following:—That a National Bank should be established, to be managed by commissioners, with specified powers to issue a given amount of paper, exchangeable at all times for gold: suppose 30,000,000*l*., in addition to the coin at present in circulation, to be the amount requisite to circulate our commodities, and to maintain our currency on a par with the currencies of other countries; then let the commissioners of the National Bank issue 30,000,000*l*.; the commissioners should not be allowed to issue any further sum, except on the deposit of bullion; notes should at all times be exchanged for bullion, and bullion for notes. The operation of a currency so established would be precisely that of a metallic currency—it would regulate itself—it would require none of that management of the currency, which is another name for mischief. When there was a demand for gold for export, the currency would be diminished, by notes being sent in to be exchanged, and cancelled to the same amount as the gold paid out. When there was an influx of gold, the currency would be increased by notes being issued in exchange for gold. When there was a demand for gold

for home use, there would be an exchange of notes for gold; the one would circulate in the place of the other, without increasing or diminishing the currency."

Mr Smith's recommendation cannot be considered as of much value: in the first place, because the Bank of England Charter, granting the privilege of issuing notes, must continue for ten years from the time of its renewal, which was the 1st of August, 1834; and then one year's notice must be given to the bank, within six months of the expiration of the first ten years from August, 1834; and a repayment to the bank of all debts due from the government must be arranged. Secondly, the representation of this country must be in a much better and purer condition before so great a trust, as the issue of thirty millions, is placed in the hands of government. Thirdly, we object to the whole issue being from one source, as money would be abundant in London, and, in the provinces, there would be a stagnation; and the idea of retaining ten millions of gold always in the strong chest, may be very well in theory, but impossible in practice, as experience has but too clearly demonstrated. And if this Government Bank of Issue should, in times of distress, check the issue, because gold was leaving the country to purchase corn, as well as being also exported as an article of trade by the bullion merchant, would not the result be the same as it is under the present system, that the distress would be increased?

Mr Smith's conclusion that, if this plan should be adopted, the currency would regulate itself; and finishing with these words—"when there was a demand for gold for home use, there would be an exchange of notes for gold; the one would circulate in place of the other, without increasing or diminishing the currency"—proves that, in his anxiety to amend the currency, he had not duly weighed what he was saying; for, in another place, he says that, when gold is issued for the purchase of corn, the notes coming in are to be cancelled. Now, suppose ten millions of gold are exported, it is quite clear they are not in the currency; and if ten millions of paper must also be cancelled, it is quite clear that there must be ten millions withdrawn

from the circulation, and this at a time when an addition rather than a diminution should take place.

We are firmly persuaded that no plan can be proposed, which has gold alone for its standard and legal tender, which will be found to work steadily and beneficially for the commerce of the country. The amount of gold is very limited; and as there can be no necessity for gold in our home transactions, the issuing from the mint of ten millions of one-pound notes would enable the Bank of England to retain in her coffers a large portion of the gold, which would thus be replaced by these Government notes, and which, in times of scarcity, might be readily exported for corn, without adding to the distress caused by a bad harvest; which is an evil quite sufficient, without having a part of the currency so necessary (as gold is, under the present system) to give vitality to the whole, extracted in such large quantities; for gold in the currency, like serum in the blood, prevents coagulation or stagnation. This must show the necessity of a substitute to prevent, or rather to alleviate, those periodical maladies, which appear to resemble in their nature the Asiatic cholera.

No. VII.

Mr Richard Cobden, a director of the Chamber of Commerce in Manchester, was next examined, and by his evidence confirms the statement of Mr Smith. When the questions began to assume the same critical form, as in Mr Smith's examination, with regard to the definition of the words Currency, Circulation, Money, &c., Mr Cobden replied as follows:—"The committee will allow me to state, that I shall be glad if any questions have upon their face a practical bearing; I am here as a practical man, a merchant, and manufacturer; and with a view to the scientific definitions of the terms used by bankers, I do not pretend to come here as an authority. It would very much prevent that confusion into which I fell at the close of my last exami-

nation, if I could clearly understand the practical bearing of every question; and it is only on practical subjects that I can afford any information. I make this explanation, because I find that in the attempt which I thought due to this committee, to answer every question put to me on the last occasion, I have given some answers at the close of my examination, which have been, by the permission of the committee, struck out, which are so unintelligible to me on reading them, that I think they must be incomprehensible to every living being. I do not understand the questions any more than I understand the answers at this moment; and I wish my examination to be of that practical nature on which alone I can afford the committee any information. As a man of business, I consider the words Circulation, Currency, and Money, to be synonymous. I beg to state, finally, my definition of circulation and deposits. I consider the circulation and deposits of the Bank of England to be both money; these two terms are merely terms of locality, the one meaning money out of the bank, and the other money in the bank, both of which she is equally liable to be called upon to pay in gold on demand. Circulation and deposits being money belonging to the public, they both equally affect the prices of commodities: hence, then, as it respects the liabilities of the bank, or the influence upon prices, circulation and deposits are the same—they are money."

Mr Cobden shows himself a sensible man, when, with that English frankness, he confesses that, although from respect towards the committee, he endeavoured to answer all questions that were put to him, yet the answers made during this confusion of mind, which the excitement and straining to understand produced, were, when he had recovered his self-possession, perfectly unintelligible to himself, nor were the questions more comprehensible. We must respect Mr Cobden for this candour; and when we acknowledge that he was right in the general practical use of these terms, we cannot admit that he was critically right in the definition, nor do we think the committee justified in so rigorous and protracted a cross-examination about the exact meaning rather than the general acceptation: for, however

necessary it may be that these terms should be clearly defined, it is quite evident that this method was more calculated to confuse and puzzle those under examination, than to elicit the truth on the more important parts of the question.

Mr Cobden very fairly says, that he is a practical man, and very willing to give evidence as to the practical working of the present monetary system; but with regard to etymological distinctions, he does not pretend to enlighten the committee, nor did the committee put their questions in that plain and straightforward manner that so incontestably proves the wish to be better informed; but the examination was carried on in the spirit of an adverse counsel cross-examining a witness, and endeavouring to upset his self-possession.

Mr Cobden states in evidence, that "the great instrument in the hands of the bank, for effecting its changes in the value of commodities, is, by creating a panic—it is a process the most disastrous to the trading community—it is the most profitable to the bank proprietors. That process was resorted to at the end of 1836, in striking a blow at the American houses, in advancing the rate of interest, and by all those means which are resorted to in the London papers, through its organs of the press, for exciting apprehensions in the minds of merchants and traders, that a curtailment was to take place."

Mr Cobden was asked if he had taken into consideration the effect which might be produced upon the circulation by the operation of private and joint stock banks? and he replies, "I believe it to be impossible for private and joint stock banks to expand the circulation, provided the Bank of England remained true to the principle it had laid down. We have no instance of its having been so; even the Scotch banks cannot inflate the currency unless the Bank of England have previously set the example. That was the case from 1823 to 1825: the Scotch banks increased their circulation from, I believe, 3,400,000*l.* to upwards of four millions and a half, up to the panic of 1825; I think that was about the increase of circulation in Scotland; but the moment the screw (to use a common term) was placed upon

the currency in London, that moment the Scotch banks were compelled to restrict their issues, and the same operation went on with all the private banks of the kingdom." He was next asked if he was of opinion that private and joint stock banks cannot increase their circulation at a time when the Bank of England has contracted? "I believe it to be impossible for private and joint stock banks under such circumstances to increase their issues. At a period such as I have referred to in 1836, when 47 banks, many of them banks of issue, were forced into existence by the impulse derived from the Bank of England, they having got into existence, they could not be prevented putting notes into circulation immediately; but I should wish, upon this point, to speak from an authority which I think will have some weight with this committee and the public. Mr Samuel Jones Lloyd, in speaking on this subject, in his first pamphlet addressed to Mr Horsley Palmer in 1837, states, the bank must first prove that it has really tried the effects of a steady, uninterrupted course of contraction, and that in the face of this the issues of joint stock banks have as steadily increased; this it is clear she has not done from January 1836 to February 1837, and therefore she appears to be without any sufficient ground for attributing the whole or the greater part of the existing derangement to their misconduct; if they have done wrong, it appears to have been from the want of that controlling action on the part of the Bank of England which she might have exerted and has not."

The next question put was, Are you of opinion that the Bank of England has a complete power of controlling the issues of country banks? "Ultimately, unquestionably, they have the power; it is impossible to doubt that the bank, having the entire circulation of the metropolis, having the privilege of a legal tender, its notes being alone receivable by the government in payment of the revenue, and possessing altogether the prestige which the Bank of England possesses in the public estimation, and backed by the government, it is impossible, that an institution so circumstanced should be otherwise than in a position of absolute power over all other banks in the kingdom."

Mr Cobden, after this, goes on to prove, that country banks are always obliged to follow the Bank of England in her movements of contraction, nor have they any power in themselves to affect the prices of commodities. When asked as to the remedy to the present evils, he proposes a metallic currency, talks of the absurdity of attempting to regulate the currency, &c., and clearly proves, that though he understands what has come practically under his observation, that he is by no means competent to prove his own theories, which are crude, and altogether impracticable.

As a further proof that Mr Cobden's observant powers are superior to his reflective, we give his opinion from his experience as to the management of the bank: "I object, moreover, to a National Bank being managed by merchants, those engaged in extensive mercantile transactions. It would be impossible, looking to the Directors of the Bank of England, to impute a want of probity; for we have had abundant proofs that the Bank of England has been conducted by men of the strictest personal honour; but it is quite clear that such a thing may arise, as for such a bank to be under the direction of individuals as merchants whose personal interests may be in direct hostility to their public duty. I would take, for instance, as merchants having a large amount of produce coming home previous to a glut, and previous to a panic, when it might become exceedingly important to those gentlemen that they should delay an action of the bank, which produced a fall in prices, until they had realised on certain shipments. Such a thing is quite possible; but at the same time, I should wish to be understood as not imputing anything of the kind to such a body of men."

Mr Cobden evinces, by his statements, the acuteness of his observation, but is inadequate to the task of proposing a remedy. When pressed upon the subject of a general bank of issue, he seems to approve of the plan, and although no blame can be attached to the country banks, he would stop all their issues at once; nor would he tolerate the idea of ever again trusting the Bank of England with her present power.

Mr Cobden, when desired to adduce some facts in proof

of the immense losses from the fluctuations in the value of money, continues:—"I am a calico-printer; I purchase the cloth, which is my raw material, in the market, and have usually in warehouses three or four months' supply of material. I must necessarily proceed in my operations, whatever change there may be, whether a rise or fall in the market. I employ 600 hands, and those hands must be employed. I have fixed machinery and capital, which must also be kept going; and therefore, whatever the prospects of a rise or fall in prices may be, I am constantly obliged to be purchasing the material, and contracting for the material on which I operate. In 1837 I lost by my stock in hand 20,000*l.*, as compared with the stock-taking in 1835, 1836, and 1838; the average of those three years, when compared with 1837, shows that I lost 20,000*l.* by my business in 1837; and what I wish to add is, that the whole of this loss arose from the depreciation in the value of my stock. My business was as prosperous; we stood as high as printers as we did previously; our business since that has been as good; and there was no other cause for the losses I then sustained but the depreciation of the value of the articles in warehouse in my hands. What I wish particularly to show is, the defenceless condition in which we manufacturers are placed, and how completely we are at the mercy of these unnatural fluctuations. Although I was aware that the losses were coming, it was impossible that I could do otherwise than proceed onward, with the certainty of suffering a loss on the stock. To stop the work of 600 hands and fail to supply our customers, would have been altogether ruinous; that is a fact drawn from my own experience. I wish to point out another example of a most striking kind, showing the effect of these fluctuations on merchants. I hold in my hand a list of 36 articles, which were imported in 1837 by the house of Butterworth and Brookes, of Manchester. Here is a list of 36 articles imported in the year 1837, in the regular way of business, and opposite to each article there is a rate of loss upon it as it arrived and as it was sold. The average loss is $37\frac{1}{2}$ per cent. on those 36 articles, and they were imported

from Canton, Trieste, Bombay, Bahia, Alexandria, Lima, and, in fact, all the intermediate places almost. This, I presume, is a fair guide, to show the losses which other merchants incurred on similar articles."

There is nothing else of great importance in Mr Cobden's evidence which follows these statements. We consider this gentleman has given some very valuable evidence, and in our next letter we will see what Mr William Rayner Wood says.

No. VIII.

Mr W. R. Wood, who had been many years actively engaged in business at Manchester, confirms the evidence of the two preceding gentlemen, describing the depreciation in prices which was experienced in 1837, and ascribing this to the mismanagement of the currency. He states that there was an increase in the circulation of the country banks between 1834 and 1836, at the same time that there was a diminution of the same amount in the circulation of the Bank of England; but nothing is said of the bank deposits, which Mr Wood does not consider a part of the circulation, and persists in saying that there is a difference between the money a man may have in his own strong box, or that of the bank, upon the plea that, though the bank might be called upon to pay either in gold, the chances are that the deposits would be paid in notes, and the notes that were in the strong box would most probably be paid in gold. Now this, on the contrary, proves that deposits are in circulation, from their being paid to the bearer of cheques either in notes or gold; and should a return be made by the bank of the different sums of gold paid out and to whom, we strongly suspect that it would appear that there was an excess of gold paid on account of deposits rather than in exchange for notes, notwithstanding the preponderance in amount of the notes over the deposits. And with regard to the increase in country bank-notes, it is

not at all proved that the old banks of 1834 increased their issues; but could it be expected that forty-five joint-stock banks, which the operations of the Bank of England had given life to, could be called into existence without increasing the issues? This increase, then, was the natural consequence of the extra joint-stock banks; and it might just as well be deduced that as, in an increasing population, there are more deaths, therefore each life is more uncertain. By the table which Mr Wood produces, it also appears that the only period in which the country circulation increased when the Bank of England had contracted, was at the time when these extra number of banks poured forth their notes; and that afterwards there occurs no deviation from the natural influence which the bank possesses over the country issues.

Mr Wood states that the bank must provide for her notes in gold, and not in notes; but no mention is made of the number of notes above five pounds, and whether they are not very similar to cheques upon deposits. Let us, for example, consider two men, the one having a cheque in his pocket for twenty pounds, the other a bank-note of the same amount; and if they both went to the bank for change, what should we think they would ask for? Most probably, in each instance, it would be "three fives and five sovereigns."

Mr Wood was asked if he had any further statement to make with reference to the conduct of the Bank of England?—"In the course of the year from January 1, 1837, to January 1, 1838, things were brought back to a healthy position: the amount of securities representing the circulation, the bullion and the circulation being all brought back to something like the points from which they had departed; but in the year commencing January 1, 1839, the bank pursued the same course as in 1836, and with the same unfortunate results. From the 1st of January, 1839, to the 1st of January, 1840, there is an increase in that portion of the securities which, conjointly with the bullion in the bank, represents the circulation of more than 4,000,000*l*. of what ought to be a fixed amount. There is a decrease in the deposits of more than 3,000,000*l*., whilst there is an

actual increase of more than 1,000,000*l.* in the total securities; and the consequence was, that she was on the verge of stopping payment. This calculation is made without reference to alterations which ought to be made for the Paris loan—which makes the matter so much the worse.

Mr Wood, in another answer, says, "Mr Warde Norman, in his evidence in 1832, in answer to question 2,394, says, the object is to keep the securities, upon the whole, at the same amount, or nearly at the same amount. And in 1839, the bank increased her securities from 21,680,000*l.* to 22,913,000*l.*, or more than a million. The rule of providing for a drain upon her deposits by a sale of securities would have told her to reduce her securities; her own rule would have told her to remain, at all events, stationary. In violation of her own rule, she increased her securities, and the committee are aware how nearly very serious consequences have resulted from this." The next question that was asked was, whether, if the bank has thus departed from rules, has not that departure, in your opinion, had the effect of lightening the pressure upon the commercial interests which must otherwise have happened? "This is a question of great intricacy: but I think it would not have had that effect; I think that when the bank departs from the rule of regulating the fluctuations of the paper currency, according to what would be the fluctuations of a metallic currency—to that extent she places the country, in regard to the circulation, in a false position. There may be cases where the Bank of England succeeds in bringing things back, after a short interval, without mischief, to a sound position; but I apprehend she is quite as likely, perhaps more so, with that limited knowledge of the course of events which our human powers enable us to obtain, to get from a position slightly false, into one more false, until counteracting measures are required of an urgency and severity producing mischief far greater than would have ensued if the rule had been adhered to from the first.

"The reduction of the bullion should be the test for the contraction of the circulation, pointing as a faithful index to the measures which should be taken to prevent mischief. As it is, the contraction of the circulation comes long after-

wards, beginning only when the mischief is seen, and bringing necessarily far more mischief in the correction. It is to be observed, too, that when strong measures have at last to be resorted to, their effect in producing pressure is in a much greater ratio than their actual amount. When confidence is shaken and credit checked, a given amount of circulation will not have the same efficiency, if I may use the term, as when confidence is felt and credit is good."

Mr Wood does not include bills of exchange in his definition of circulation; but, although he considers that they perform functions similar, in some respects, to those performed by the circulation, yet always with certain marked distinctions. No one would, I should think, wish to deny that there were distinctions, more or less marked, in the different portions of the currency in circulation. If any one man will take a bill of exchange, it is so far current; if two or more, it is still a more creditable part of the currency; and if it is universally current (as a bank-post bill), then it ranks in value next to gold. Mr Wood is not aware that there is any distinction between the terms currency and circulation. We consider currency is legal money, and credit money; for if a man accepts a bill which no one will take, it cannot be said to be a part of the currency. But you may just as well say that country bank-notes, which are only circulated within a small district, and are not current beyond, are not a part of the currency, as to say that a bill of exchange, drawn by Rothschild and accepted by Baring, which I should imagine would be current anywhere, did not form a part of the currency. Circulation signifies the action of the currency, the whole of which circulates, some parts quicker, and some slower —some in one part and some in another, like the different fluids in the human body.

No. IX.

It is with feelings of pleasure that we read the evidence of Mr Richard Page; for although the first two days were consumed in a cross-examination, which did not elicit much new matter in addition to the former evidence, yet his answers were clear and to the purpose, and decidedly proved that he had investigated this subject deeply and well. He very fairly explains the nature of deposits; and although we before considered them as a portion of the currency, yet we considered them to be a sluggish portion. But Mr Page has cleared up this error, and convinced us that, instead of deposits being the most inert, they are to a certain extent the most active part of the currency.

After all the questions which during two days had failed to shake any part of Mr Page's evidence (which was manly and straightforward), Mr Page was asked if he had any observations to make upon the management of the Bank of England since the renewal of its charter in 1833? "Yes; it appears to me that after the renewal of the charter in 1833, the bank directors, feeling that the deduction which they had made to government from the charge for managing the national debt would render it impossible for them to continue the former rate of dividend to the proprietors, by their usual mode of doing business, and not wishing to reduce that dividend, they seem to me afterwards to have fallen into very irregular practices, all totally different, and deviating from the principle which they had laid down when the charter was renewed; the charter was renewed towards the fall of the year 1833, and they began in 1834 to deviate entirely from the principle which they had laid down. I find that on the 31st of December, 1833, which is quite at the end of the year, their securities amounted to 23,576,000*l.*; and I find that on the 23rd of September, 1834, those securities were increased to 28,691,000*l.* I find that all the time the securities of the bank were increasing, the bullion was diminishing in a certain proportion; and therefore I say

that must certainly be a wrong principle for a man to act upon, in proportion as the bullion diminishes, to increase his securities. The bullion on the 31st of December, 1833, was 9,948,000*l*., and on the 23rd of September, 1834, it was 7,695,000*l*. Now, I have heard, and I believe it to be a fact, that the Bank of England, during the course of the year 1834, got into its hands a balance belonging to the East India Company; and the East India Company applying for their money, or wishing to make interest on it, the bank agreed to borrow that money of the East India Company at a certain rate of interest, which I am not acquainted with. That, in the first place, was a most disgraceful proceeding; it was a re-discount; it shows that they had overtraded: because if a banker has not overtraded, he can never be under the necessity to give part of the interest which he gets on his securities to another man; but I leave that out of the question. I will suppose that it was a perfectly regular thing for the Bank of England, having money belonging to the East India Company, not payable immediately, but payable at a future fixed period, to go and employ that money as it could; but then I consider what effect that is to produce in the present case, and to consider that I must see where this money comes from that so belongs to the East India Company. The East India Company were then winding up their affairs, and that money came from men who had purchased goods of the Company, plain, plodding, practical, business-like men; and to whom does it go? The bank re-lends this money, upon every description of securities, to jobbers and speculators; and, therefore, supposing the transaction not to have been, as a re-discount, a disgraceful one, still it must have been productive of a state of excitement, and of serious consequences. Then comes the question again —Whether the Bank of England did or did not lend more than the balance which they had belonging to the East India Company? Now, I have heard that the sum which they borrowed of the East India Company, in the way I have mentioned, was 2,000,000*l*.; and I find that the sum which they lent was 5,000,000*l*.; because, as I have stated, their securities in December amounted to 23,576,000*l*.;

and in September they amounted to 28,691,000*l*. Now, what was the consequence of all this? Transactions in Spanish and Portuguese loans; so that though not nominally, they were virtually, lending money on Spanish and Portuguese stock. I knew a man at that time, and he told me of the transaction; he went and borrowed money of them upon St Katherine Dock Bonds—a curious thing to advance money on—and he said to the clerk, when he took the money, 'Do you know that you are lending money on Portuguese stock?' 'No,' said the clerk, 'I know nothing about that, nor do we care about it; we only look to the security that you give us.' 'Oh, well,' says he, 'I am going to make 10 per cent. upon this money.' 'Make as much as you like,' says the clerk; 'I have no objection.'

"I mention that to show how the thing proceeded. In consequence of all these proceedings, the bullion began to flow out; and though the bank, perceiving the error they had committed, began from September to reduce their securities, it was too late; they had given an impulse to things, and the bullion kept going out, till, at length, on the 2nd of June, 1835, it was reduced to 6,150,000*l*.; after which period, in consequence of the bank having, on the one hand, reduced their securities, and by that means diminished the quantity of money, and the bullion on the other hand, which had been taken out and exported, having again diminished the quantity of money; and there being, at the same time, a great explosion of Spanish and Portuguese finance, things began to come round, and the bullion began to return.

"In the early part of 1835 there was, indeed, in consequence of this explosion, in May or June, I do not recollect which, a complete panic in the money market of all speculation, and of every speculative disposition. Then there came, in August, the proposition for the West India loan of 15,000,000*l*. The preliminary meeting for the loan was on the 29th of July, 1835, at the Treasury; at this meeting Lord Melbourne and Lord Monteagle stated to the persons present the sum of money they should want, and in what way they proposed to raise it; and they then

stated that, as the money paid in, and as the money to be awarded by the commissioners, would not, probably, in point of date, exactly tally with each other, they had come to the determination to issue certificates payable to bearer, to be specifically charged upon the instalments of the loan, and also payable at the bank, in part of the instalments on which they were specifically charged. The meaning of that is, that, in case awards should have been made, and that no money had been paid in on the loan, or not sufficient to pay those awards, that then the West India merchants should have an opportunity of getting money for the certificate at the bank, or getting it discounted, or doing what they pleased till the money came; and therefore the government had taken a very simple and admirable method to prevent all derangement of the currency in consequence of the loan. At this preliminary meeting the governor of the bank attended, and was repeatedly asked whether the bank would grant the usual accommodation on the loan. Now, the usual accommodation heretofore has meant this, that the subscribers should pay the first and second instalments, and that then the bank, if required, would pay up the remainder, or any part of them. The governor of the bank being asked this question—'Whether the bank would grant the usual accommodation on the loan?' refused to answer, and it was generally understood in the city that the bank would not do it; the loan was taken at a price equal to 86*l*. 4*s*. ten per cent. stock, and I dare say, if the governor of the bank had said that he would grant accommodation with respect to this loan, the government would have got a higher price for it; for I find that the loan being taken at the price I have mentioned, there was a profit on it on the day it was taken, at the market price of stock, of 545,039*l*. The loan being taken on the 3rd August, now come the periods at which the different instalments on this loan were to be paid.

Statement of the amount that would have been paid u
on account of the loan of 15,000,000*l*. at the period fo
the payment of each instalment under the contract, ar

of the amount of the compensation which had been awarded for the payment at the same periods:—

Date of Instalment.		—	Aggregate Receipt.	Aggregate of Award.		
			£.	£.	s.	d.
1835.	Aug. 6 ...	10 per cent.	1,500,000	—		
...	Oct. 16 ...	10 ...	3,000,000	2,074,098	2	11½
...	Nov. 13 ...	7½ ...	4,125,000	4,822,830	18	4½
...	Dec. 11 ...	7½ ...	5,250,000	8,378,653	6	10⅛
1836.	Jan. 13 ...	10 ...	6,750,000	9,777,268	14	6⅛
...	Feb. 9 ...	9 ...	8,100,000	11,687,968	7	5⅛
...	Mar. 11 ...	9 ...	9,450,000	13,100,271	17	2⅛
...	Apr. 12 ...	9 ...	10,800,000	13,768,497	13	6⅛
...	May 10 ...	6 ...	11,700,000	14,201,500	6	0½
...	June 14 ...	5 ...	12,450,000	14,391,400	5	1
...	July 12 ...	8 ...	13,650,000	14,579,133	4	9⅛
...	Aug. 16 ...	5 ...	14,400,000	14,739,578	18	9½
...	Sept. 13 ...	4 ...	15,000,000	—		

Whitehall Treasury Chambers,
11th August, 1836.

Therefore, by the measures which the government had taken, on the one hand, by proposing to issue certificates to the claimants, if there was no money paid upon the loan, and, on the other hand, by spreading the payment to be made over so long a period of time as more than twelve months, it is as totally impossible that that loan could have interfered with the currency, if the bank had not interfered, as it is for me to fly to the moon. The governor of the bank, then, by his silence, gave parties to understand that he would give no accommodation; yet, before any one single payment was made on the loan, out comes a notice of the bank that they would lend money on exchequer bills, India bonds, six months' bills of exchange, and all other approved securities. This was on the 5th of August, the first payment being on the 6th. Now, it must be considered that the government allowed a discount for prompt payment on the loan equal to 3¾ per cent. per annum, and, previous to this loan being taken, the rate of interest charged by the bank was 4 per cent.; but no

sooner was the loan taken, and before any payment had been made, as I have stated, there came this notice, offering to lend money at 3½ per cent., and thereby giving a premium to every subscriber to the loan who should come and borrow money of the Bank of England, in order to pay it up, of a quarter per cent., in addition to all the profit which he made already on the loan. A very little time after this—I think in a fortnight afterwards—the bank, in addition to all the articles upon which it agreed to make advances, added the article of stock, a thing which it had not done since the famous bubble period of 1824 and 1825, and of which it then experienced the sad consequences. In fact, it is totally against all rule to advance money upon stock, because, upon that principle, you may convert the whole national debt of England into currency. The bank continued these notices and advances for a period of eight months, from August, 1835, till April in the following year; the first consequence was, that nearly the whole of this loan, which was spread by the government, as to the payments, over a period of thirteen months, was paid in full in December 1835; a large sum of money, of course, was paid in on the government account, and upon which the government allowed a discount, amounting to upwards of 220,000*l*., having no use for the greater part of the money, because the claims of the West India planters could not be adjusted in time to make use of it. Now, if the Bank of England had been actuated by no other motive than to have prevented a derangement of the currency, it would have been sufficient to have adopted its former practice in the case of loans, and to have let the subscribers make the two first payments, and then made the remainder; in which case the bank would not have had to make any one single advance before the 13th of November, 1835; but here they gave notice that they were willing to make advances, not as in the case of former loans, upon the omnium of that loan, but upon all manner of securities whatever; and therefore there were two deviations, first, as to the time, and then as to the nature of the securities which they were willing to take. If we suppose that the loan could have produced a pressure in the money market,

it would have been quite sufficient for the Bank of England, in order to ease that pressure, to have advanced money to individuals at the rate at which it had advanced previously to the loan, that is, four per cent.; but then there would have been no repayments made on the loan in full, by means of the money borrowed of the bank, because no one would be so foolish as to pay 4 per cent. to the bank, in order to get $3\frac{3}{4}$ per cent. from the government; but the bank, with a view to a profit on this loan, having dropped its rate of interest from 4 to $3\frac{1}{2}$ per cent., there was immediately, as I have said, a premium of $\frac{1}{4}$ per cent. by paying up the loan in full; and then the consequence was, that the bank, without advancing one single shilling, but simply by means of transfer from one account to another, made a very large sum of money at the expense of the government; but, while it was doing this, this not being a particular thing confined to the loan, but their advances extending to all persons whatever, Jew and Gentile, there were sums of money borrowed of them by other parties; great excitement was produced. All this came on gradually; railway schemes, joint-stock banking companies, over-trading to China and America, importation of American securities and stock, transactions in American accommodation bills, which may be called kite-flying, and then, as the consequence of all, the bullion again began to go out. Then the bank acted as it always does when it has produced mischief—it began to sow the seeds of alarm, in order to prevent a further drain on its coffers; but having done the mischief, and having given an impulse to things, and turned them into a certain channel, they were not so easily to be diverted from that channel, and the bullion kept constantly going out till, on the 6th of April, 1837, it was reduced to 4,071,000*l.* This year was a year of great embarrassment and distress, all produced by the measures of the Bank of England; there were very large failures, and among the rest the failure of three American houses, whose debts amounted to between three and four millions of money. Now these men were ruined by the Bank of England; they were first encouraged to overtrade, then the bank cut off their resources, and they fell imme-

diately,—not having been men of straw, not having been adventurers, but having been men (previous to the period when they were encouraged to go into these things by the facilities afforded by the Bank of England) of very large capital."

No. X.

Mr Page then details the loss sustained by the government by this conduct of the bank:—First, the diminished price obtained for the loan; secondly, the discount on the loan; thirdly, the loss by raising the interest on exchequer bills; and, fourthly, the loss by the falling off in the revenue, to the amount altogether of 3,000,000*l*. The next charge against the bank was, that with the knowledge of the deficiency in the corn crop in 1838, it issued a notice offering to make advances, not only on bills of exchange, but also on exchequer bills and India bonds, and other approved securities, at 3½ per cent.; the consequence of which was, their securities increased, a stimulus was given to speculation, the price of corn rose from 73s. 6d. a quarter to 75s. 6d. within a week; and in another week, viz., 14th of December, it was 78s. 4d.; and on January the 11th it was at 81s. 6d.

There was also a considerable speculation in raw cotton, which was productive of much evil consequences, besides draining the bank of its bullion to the amount of 7,000,000*l*. within nine or ten months, with an increase of upwards of 4,000,000*l*. in her securities. So that while they were ruining the country they were increasing their profits. It was about the latter end of 1839 that the bank borrowed money from the bankers at Paris, bringing such discredit upon the British nation, that foreigners who had money in the English funds sold out.

Mr Page recommends as a remedy for these fluctuations in the currency, government paper to a moderate fixed amount, never to be exceeded or diminished, so that all

fluctuations would be in the precious metals only. But in this matter Mr Page does not take into consideration, when he deprives the private banks and the Bank of England of the power of issue, and gives it to the government alone, that, independently of the mischief which would accrue to the country for want of that assistance derived from local issues, the government would not be in a bit better position than the Bank of England is at present, if they were obliged to cash their notes in gold; for when gold was in demand, it would be just as impossible for the government to retain the gold as it is for the Bank of England.

We condemn the conduct of the bank most decidedly; but, at the same time, it must be acknowledged that the interest of the bank is at variance with that of the public; for when the public require no assistance, and there is no demand for gold, then the bank, in order to make a profit, pours forth its paper at a low rate of interest, in order to increase the dividends on Bank Stock, at the risk of engendering every species of public gambling; and, when assistance is most needed, the bank begins to contract the currency, fearing the demand for gold; her only security being the conviction, that should matters be brought to a crisis, the government must suspend cash payments; and this prevents the bank directors from acting candidly with the government, and pointing out the plan to be adopted in order to combine the interest of the bank with that of the public.

A limited supply of one-pound notes, issued by government, and added to the gold standard, would doubtless effect this; for, if the gold was exported, the one-pound notes would remain, and there would be no difficulty in the bank retaining a sufficient quantity in her coffers.

Mr Page very justly remarks, that the government should be independent of the Bank of England; and that it would be better for the government to apply directly to the public for all necessary advances. The Bank of England, engrossed with its private interest, cannot advise the government with candour, and very few merchants can venture to speak in opposition to the bank, or if they do, they

must expect to see their bills refused by the bank in times of emergency; and thus the government is not only kept in ignorance of the truth, but deceived and humbugged in every possible way by these bank directors. It is to be hoped that another session of parliament will not be wasted in this parliamentary inquiry, but that some plan will be adopted to remedy the evil which threatens to destroy the trade of the country by these excessive fluctuations. Some limit should be put to the rate of discount, for it appears absurd that within a very short period of time discount should range from three to ten per cent., and in too many cases we believe forty and fifty per cent. has been paid.

We think that the Bank of England, having the power of increasing the circulation so largely, should never discount at a lower rate than four per cent., and that any charge above ten per cent. should come under the usury laws.

We see in the 'Globe' a letter from a Mr Robertson, recommending that our British funds should have the same advantage as the foreign by having coupons attached to them. This is the first suggestion of the sort that we have heard, and we think it worthy of serious consideration. The present plan of receiving the dividends in person, or giving a power of attorney, is very inconvenient and objectionable; and we would venture to predict an increased value in the present price if this plan is adopted.

No. XI.

Mr Muntz, one of the members for Birmingham, was the next person examined, and states, as his opinion, that the Bank of England cannot, at the same time, carry on its business with profit to itself and in accordance to the interest of the country. He considers that the bank should always retain in its possession one-half of its circulation in gold; and this, as a matter of course, would prevent any profit from being realized. In accordance with the pre-

ceding witnesses, Mr Muntz complains of the management of the Bank of England, and recommends a silver standard, to be regulated by the price of corn; but this plan, we are inclined to think, is better in theory than in practice. Mr Muntz, though we cannot admit him to be right in all his views, displays much ability in his plans for amending the circulation: when he recommends a national bank of issue as a regulator of the currency, he has no objection to the Bank of England and the other banks still continuing to issue. The government bank, he considers, should always retain half its circulation in bullion, and the Bank of England might issue its paper like any other joint stock bank.

Although we object to Mr Muntz's plans, upon the grounds that we think better can be adopted, we must candidly acknowledge that his ideas are original, have all the appearance of sincerity and good faith, and we have not the least doubt, would be an improvement to the now existing state of the currency. But we are inclined to doubt the possibility of the government, any more than the Bank of England, being able to retain so large a quantity of bullion as one-half its circulation. We think it would be a much more simple plan for the government to add about 10,000,000*l*. in one-pound notes to the present gold standard, and this would give a greater steadiness to the currency than any other system that has been proposed; for the government might issue these notes from the Mint, in payment, with the gold, to the Bank of England for dividends, &c.; and we should be sure that, if the gold was drained out of the country, the one-pound notes would remain to answer our local demands; nor would their value be less than that of gold, since they would always be receivable by the government as taxes; and if no more than 10,000,000*l*. were issued, there could be little chance of any depreciation in the currency, and the Bank of England would decidedly stand upon a very different and much securer ground. And the only thing to be guarded against would be the bank over-issuing, on account of her increased security; but this we should propose to be done by limiting the rate of interest, which should not be lower than four per cent.

The government would thus possess a curb upon the currency, which might be used if necessary; but the chances are, that by thus widening the standard or base upon which the present top-heavy and tottering currency rests, that a steadiness would be given to the whole system, which would prevent the recurrence of those frequent and fearful vibrations which now threaten every moment to crush by its overthrow the commerce of the country, and induces a belief in the industrious classes, that there is little use in contending against this present ruinous system.

The British people have well earned their character for energy and steady industry; but if some effectual stop is not put to these constant fluctuations in the money market, their national character will undergo some change for the worse. For, when there is no security for the most prudent and industrious—and all are equally liable to these sudden squalls, by which they are involved in one common ruin—we cannot but expect to see the industry and energy of the country annihilated.

The accounts of the moral condition of the working classes, as now existing in the manufacturing districts, are very lamentable, and seem to warn us of the danger which despair must produce upon the minds of the uneducated mass.

No man can deny the demoralizing effect of the present variations in the currency upon the uneducated, and although, when a steady prosperity exists, and the working class may be apparently in a contented and moral condition, yet this is but a delusive appearance; for let misfortunes come upon them—let there be high wages to-day, and to-morrow no work, we shall then see that their minds, unstrengthened by education, are incapable of bearing these sudden reverses. They enter into every species of rioting and drunkenness, they have no moral check, therefore they cease to be men, they become beasts. What excuse can there be, that in a country like England, with such unlimited command of wealth, where 20,000,000*l.* can be readily obtained for emancipating slaves, that this worst of all slavery—the slavery of the mind—should exist to so fearful an extent. Let our legislators well consider, that more

than one-half of the crime committed is the result of ignorance, and that if this ignorance is suffered to continue, they are answerable for all the mischief that ensues.

Mr Jelinger Symons, in his very able pamphlet on popular economy, proposes an educational franchise as a means of stimulating the people to acquire the elements for a more perfect education. There at present exists an apathy among the working classes upon this subject, which would thus be overcome, for no one would be excluded from the elective franchise except from ignorance, which would be his own choice, and would mark him among his fellows as stupid and ignorant.

If the currency was properly adjusted, the industry of the country encouraged by removing all unnecessary restrictions upon trade, and the education and moral instruction of the people promoted, with one-half the zeal and energy which is displayed about foreign missionary societies, and the empty cry for reform, without any real idea of the true meaning—then would this country be progressing towards such a state of prosperity and happiness, that but few men now only dream of.

No. XII.

Mr John Horsley Palmer, a director of the Bank of England, states that his evidence, which was given before the Bank Charter Committee in 1832, contained the principle by which, in ordinary times, the bank is guided in the regulation of its issues. This principle he defines as follows:—that with reference to a full currency, and consequently par of exchange, by which the bank has been guided in the regulation of its issues, always excepting special circumstances, has been to retain an investment in securities bearing interest to the extent of two-thirds of their liabilities, the remaining one-third being held in

bullion and coin; the reduction of the circulation, so far as may be dependent on the bank. Mr Palmer—in this special statement, wherein he defines the regulation of the bank, excepting under special circumstances, *alias* special humbug—has placed the bank directors in a special dilemma; for no man in his senses can define what special circumstances mean, as the directors may choose to assume that any circumstances that suit their purpose may be special. With regard, then, to those regulations, we find that in ordinary times—that is to say, when all matters are going on in a sort of quiet jog-trot pace—the bank can very easily fulfil this resolution; for England being the largest manufacturing country in the world, it follows as a matter of course that the precious metals will flow in plentifully, so that the Bank of England can very readily act up to this regulation of retaining a third of its issue in bullion; but let the trade of the country be upset through the avarice of the Bank of England, in making money too plentiful, and then, under these special circumstances, let us see whether the Bank of England can retain the regulation amount of bullion. We shall see, in the examination of Mr Palmer, that he clearly proves that these special circumstances occurred whenever it was most agreeable to the bank; and the result of this short-sighted policy was, that the public suffered most grievously, and the Bank did not prosper, as we can judge from the present price in Bank Stock.

Mr Palmer was asked how soon after the charter he considered the bank in a sound state; and he replies, in 1833, when, according to his showing, the circulation amounted to 19,800,000*l.*, and the deposits were 13,100,000*l.*; the total liabilities were 32,900,000*l.*; the securities were 24,200,000*l.*; the bullion was 10,900,000*l.*; total assets, 35,100,000*l.*; rest, 2,200,000*l.*

Between October, 1833, and March, 1835, there was a drain of bullion to the amount of 4,500,000*l.* Mr Palmer answers the question of whether, during this drain, the bank adhered to the principle laid down of maintaining an even amount of securities, by saying that it did so as

nearly as circumstances would admit, but acknowledges that this does not appear upon the quarterly returns.

Mr Palmer's statement with regard to the East India Company's money, upon which they allowed interest, shows that the bank could depart from all principle laid down whenever it suited her purpose. He states that there was no corresponding reduction in the securities at the time when the bank was lending the East India Company money upon stock and other unusual securities.

Mr Palmer affirms that the reduction of the liabilities corresponded to the amount of drain in bullion—viz., that the reduction of liabilities in March, 1835, was 4,700,000*l.*, and decrease of bullion was 4,500,000*l.* What Mr Palmer means by this we are rather at a loss to comprehend; he cannot surely fancy we are all stupid enough to admit that the reduction of liabilities corresponded with the decrease in the bullion upon the principle professed by the bank. The decrease in bullion was 4,500,000*l.*; the reduction of liabilities should have been 13,500,000*l.*, according to the bank policy.

Mr Palmer's testimony proves that the bank was getting into a sound state in August, 1835, having almost recovered from the effects of its mismanagement, when the West India loan was contracted for, and then the bank, greedy of gain, again threw everything into confusion, and caused all those evils which have all but ruined the country. He cannot give any satisfactory reason for any of those special circumstances which caused the bank to depart from the principle which it had laid down; the only inference to be drawn is, that the bank was looking to its own special profit, and so overlooked everything else.

Mr Palmer endeavours to defend the conduct of the bank in advancing money, contrary to custom, on stock, &c., by the following absurd statements:—"And with reference to this transaction of the West India loan, I beg to explain, that it appears, upon reference to what then passed, that it was agreed, at the time the loan was contracted for, and to which, I believe, the then Chancellor of the Exchequer was an approving party, that as the bank

declined to make the payment for the instalments subsequent to the second, as in the case of former loans they had been in the habit of doing, the circulation of London should not be permitted to be contracted by the payments being made by the contractors, so as to cause an advance in the market rate of interest then existing; and, consequently, that the bank should re-issue so much as might be requisite at the market rate, which understanding was the cause of the notices of the 5th and 20th of August, 1835; and from many of the subscribers to the loan having only stock to offer as a security, this species of security was included in the notices of the 20th of August, and subsequently during the continuance of those advances."

How does this statement of Mr Palmer agree with the facts stated by former witnesses? On the 6th of August the first instalment upon the loan was to be paid—viz., 10 per cent., or 1,500,000*l.*; the market rate of interest was 4 per cent., and the Government, calculating upon the possibility of requiring some portion of the loan at earlier dates than were named for payment, offered $3\frac{3}{4}$ per cent. for prompt payment, naturally concluding that this offer, being rather under the market rate, would prove an inducement for a moderate degree of advance of these instalments; but the bank steps forward on the 5th of August and offers money, upon unusual securities, at $3\frac{1}{2}$ per cent., which was as good as giving a premium of $\frac{1}{4}$ per cent. to the contractors of the loan for prompt payment, and this lowering of interest and offer of advance upon stock was before one shilling had been paid; and how could the bank at that period see the necessity for this departure from her usual mode of doing business?

The fact is, this was a very knowing piece of jockeyship on the part of the bank, by which the bank was to win and the government suffer; and as for the currency, all consideration on that score was lost in contemplation of the profit to be reaped. The bank are holders of this money until it is wanted, and of course the government would not act wisely to keep more money without interest in their bankers' hands than was absolutely necessary; and yet, as

the bank had declined to make advances, it was prudent to offer a small rate of interest so as to insure a sufficient sum in case of need. But the bank took good care the government should not feel in any difficulty from a short balance, and therefore these notices appeared, giving a premium for the payment of money upon which the bank was to make profit, and the government was to pay the piper. The only surprising part of this is that the bank should attempt to defend this conduct upon public principles and its great care for the state of the currency, &c. Mr Palmer was asked the reason why the bank declined to pursue the course which they had done on previous loans? This gentleman's answer was—" Their not choosing to pledge themselves to any specific advance which might endanger the state of the currency."

Mr Palmer was asked for a detailed account of the actual state of the bank on the 5th of April, 1836, and the 7th of February, 1837, when he presented the following:—

A STATEMENT OF THE LIABILITIES AND ASSETS OF THE BANK OF ENGLAND AT THE UNDER-MENTIONED PERIODS.

5th April, 1836.		
CIRCULATION.		
London - -	£14,078,000	
Country - - -	3,649,000	
		17,727,000
DEPOSITS, PUBLIC, viz.,		
Exchequer Account	1,659,000	
West India Loan -	1,437,000	
For Payment of Dividends - -	290,000	
Other Public Accts.	1,554,000	
		4,940,000
DEPOSITS, PRIVATE, viz.,		
London Bankers -	844,000	
East India Company	1,059,000	
Loan from do. -	2,900,000	
Other Deposits -	2,898,000	
- - -	533,000	
		8,254,000
		£30,921,000

PUBLIC SECURITIES, viz.,		
Advances on Exchequer Bills - -	—	
Deficiency - -	—	
Exchequer Bills purchased - -	3,359,000	
Stock and Annuities	11,215,000	
		14,574,000
PRIVATE SECURITIES. Bills Discounted.		
London - - -	405,000	
Country - - -	2,312,000	
		2,717,000
City Bonds - -	900,000	
London Docks do. -	227,000	
Mortgage - -	1,377,000	
		2,504,000
ADVANCES.		
Bills of Exchange -	5,420,000	
Stock - - -	65,000	
Other Securities -	724,000	
		6,209,000
		£26,004,000
Bullion - - -		7,846,000
		£33,850,000

7th February, 1837.

CIRCULATION.		
London - -	£14,658,000	
Country - - -	4,211,000	
		18,869,000
DEPOSITS, PUBLIC, viz.,		
Exchequer Account	670,000	
For Payment of Dividends - -	1,027,000	
Savings Banks -	726,000	
Other Public Accts.	1,691,000	
		4,114,000
DEPOSITS, PRIVATE, viz.,		
London Bankers -	730,000	
East India Company	645,000	
Loan from do. -	700,000	
Bank of Ireland and Royal Bank of Scotland - -	440,000	
Other Deposits -	3,351,000	
Deposits at Branches	498,000	
		6,364,000
		£29,347,000

PUBLIC SECURITIES.		
Advances on Exchequer Bills - -	—	
Deficiency - -	£3,035,000	
Other Excheq. Bills	—	
		3,035,000
Exchequer Bills purchased - -	149,000	
Stock and Annuities	10,929,000	
		11,078,000
PRIVATE SECURITIES. Bills Discounted.		
London - - -	4,346,000	
Country - - -	5,900,000	
		10,246,000
City Bonds - -	872,000	
London Dock -	227,000	
St Katherine -	279,000	
Mortgage - -	1,362,000	
		2,740,000
ADVANCES.		
To the Northern and Central Bank, and other Banking Establishments - - -		1,761,000
		£28,860,000
Bullion - - -		3,831,000
		£32,691,000

Mr Palmer was then asked to explain these special circumstances which led to this apparent great deviation from the rule; and he replies, "I do not consider that any material excess existed prior to August, 1836, from which period the export of bullion ceased; from that time until the spring of 1837, the bank made considerable advances in aid of some of the principal commercial houses trading with America, and also in support of some leading banking interests in England and Ireland; those advances were made with the belief and expectation that a general discredit might thereby be prevented, and which end I believe to have been accomplished."

Thus, after the bank has caused a speculating mania by advancing money at 3½ per cent., and when the contraction necessary presses rather too hard, they deem it expedient to make further advances to uphold the tottering credit of those houses they had encouraged to speculate. Are those joint-stock banks to whom the Bank of England gave so large a discount credit included in the number of banks to whom the Bank of England advanced 1,761,000*l.*? Mr

Palmer considers that the discredit upon the American houses originated in their entering upon transactions beyond their means; but does not think the bank caused this by facilitating all credit transactions, nor can see any matter in which blame can be attributed to the bank.

Mr Palmer shows that the Bank of England, in 1838, exported a million of gold to America, in order, as he says, to assist the Americans in their attempts at cash payments, and also to gain a considerable profit upon the exchange, which was then very high in America and low in England.

Mr Palmer acknowledges that this was a complete deviation from the principle laid down by the bank, but considers that "the special circumstances of the trade between this country and America seemed to justify that departure." He says that, in the year 1837, the export trade to America was diminished to a very large amount; that it was the object of the bank to assist in the restoration of that trade. He considers this "one of those special cases which might justify a departure from the strict rule, looking to the advantages of the trade between Great Britain and America."

What can be expected from such short-sighted policy as this—that the Bank of England should depart from her rules in a manner most injurious to her own interest—that it should not only encourage, but set the example to, traders in bullion? Could not the bank directors foresee that what would bring present profit must bring future loss to a much larger extent? The bank having set the example of exporting bullion, justified, as Mr Palmer contends, by these special circumstances, and also by observing the influx from the Continent was continuing, the result was that this same exportation of gold continued, but the influx from the Continent decreased every quarter from the 3rd of April to the 16th of November; and from the close of 1838 to the 15th of October, 1839, there was a constant and rapid drain of bullion to the extent of 6,837,000*l*., leaving only 2,525,000*l*. in the bank chest. Yet, notwithstanding all this decrease, and during the period this drain was going on, the bank increased its securities by 2,836,000*l*.; but this, Mr Palmer says, was

not done voluntarily by the bank; it arose from deficiency bills in the quarter ending December. But when pressed further, he says that there was a proportion of government securities, that was purchased in October and November, which came into the average of January. All this seems very unsatisfactory, and does not say much for the exactness of the Bank accounts. Between January, 1839, and October, the transmission of gold, and the use of a credit by the Bank of England upon Paris, amounted to full 10,000,000*l*. The credit given by the Bank of Paris was about two millions and a half. The measures adopted by the bank to stop this drain of gold were, the raising of the rate of interest, from time to time, up to 6 per cent.; but if it had been 10 per cent. it would have been ineffectual, for those who have contracted engagements must have the money to meet them, whatever rate they pay for it.

Mr Palmer, having stated that the measures of the bank failed to reduce the securities, was asked whether he conceived the bank to be under an obligation to discount to an unlimited extent, notwithstanding any rule which they may have laid down for their management, or notwithstanding the principle of keeping a fixed amount of securities?—"I cannot answer that question without reference to a given state of circumstances."

Mr Palmer considers one of the causes to which the drain of gold in 1839 may be attributed, to be the doubt which was then existing upon the Continent of the ability of the bank to maintain specie payments, but cannot account for that doubt. He was asked whether he did not think the raising the rate of interest to 6 per cent. for the first time for a very long period in this country, and those operations upon the foreign credit, instead of a sale of securities by the bank, had the effect of shaking confidence abroad?—"It might have been so, but I cannot answer that question."

Mr Palmer does not consider the publication of the accounts of the bank of any importance to the public—does not consider that merchants would contract their engagements, if they saw that the bullion in the bank was rapidly diminishing.

The question was asked, if it was not his opinion that, during the course of the spring and summer of 1839, the attention of the public, and merchants and bankers especially, was very much called to the fact of the gradual diminution of the bank bullion, as it appeared in the successive publications of returns?—"I very much question if it had much effect on the merchants; I cannot answer for the bankers."

He was next asked whether it was not a fact that a very public discussion took place in the newspapers and in other quarters, and that the public attention was particularly called to that fact?—"I did not take much interest in what was passing at that time, and therefore cannot answer that question."

So it appears that the bank has directors who don't take much interest in what passes in times the most critical; after such an avowal we may expect excellent management. Mr Palmer states the amount of bullion on the 1st of January, 1839, to be 9,048,000*l.*, and on the 2nd of April it was 5,737,000*l.*, showing a loss of bullion between the two periods of 3,311,000*l.* The circulation on the 1st of January, 1839, was 17,529,000*l.*, and on the 2nd of April it was 18,111,000*l.*, which gives an increase in the circulation of 600,000*l.* against the decrease of bullion. The bank deposits on the 1st of January, 1839, was 11,327,000*l.*, and on the 2nd of April it was 7,087,000*l.*; from which it appears that the decrease in the bullion fell entirely upon the deposits, and was not accompanied with any diminution of the circulation, but with some increase of circulation. Mr Palmer was asked whether, assuming that the bank had so conducted their business as to permit that large diminution of bullion to produce its natural effect of diminishing the circulation, is it not your opinion that in all probability the drain of bullion would have been stopped before that time, and would not have continued during the succeeding months? Mr Palmer says that there was no increase of securities during that period; on the contrary, there was a diminution of 259,000*l.*; but he does not state that all the diminution was on the deposits over which the bank had no control—the circulation in-

creased, and the other securities increased; and when asked whether the bank might not have sold securities, or have interfered in some manner to check the drain earlier than April, 1839—"I think not, upon the principle laid down for its management." From the whole of Mr Palmer's evidence it appears that the panics that have occurred have principally arisen from the mismanagement of the bank. Mr Palmer defends the system of the bank, and does not appear to have intentionally erred, but from want of completely understanding the subject; he appears apt enough in theory, but, as a practical banker, has proved his incompetency.

WHAT good is to result from this lengthened examination, it is rather difficult to conjecture; one thing is certain, that if anything is to be done, it should be done quickly. The Bank of England has caused much mischief to the public by departing from the principles laid down by the directors, and it appears quite clear that some alteration in the currency is necessary, in order to place the Bank of England in a sound position with regard to its own profits, and the public welfare. Many are the theories presented before the public as to the advantages of a metallic standard, some for an entirely government issue, others for a free trade in banking with paper *ad libitum.*

So wide indeed are these theories from each other, and so vehement the proposers in asserting the correctness of their own peculiar views, that they immediately condemn their adversaries wholesale, and generally overlook the necessity of proving by experience the strength of their arguments. The public, bewildered by these adverse statements, suppose the subject of the currency too difficult to be comprehended by any but the initiated in all the mysteries which it is pretended involve this subject. But let us take the subject, and strip it of the technicalities, and then see whether it cannot be made plain enough for any man of common understanding to comprehend it thoroughly.

In the first place, the great desideratum in the currency is steadiness of value, in order that our manufacturers may be enabled to make their calculations upon some secure footing, and that their capital and energy may not be swamped in these continual monetary convulsions, which have been principally caused by our standard being only gold, and the fact of the gold being largely exported whenever there is a demand for it abroad, that is when a sovereign is worth much more than twenty shillings, which is the unchangeable value of it in England; and as there is no substitute left to supply the contraction in this important part of the circulation, why, the bank find it impossible to continue cash payments without contracting their paper issues.

The last eighteen months will furnish sufficient evidence to all the intelligent who will think on the subject, that gold alone is not a sufficient standard, and if the value of gold remains the same in England, the value of money does not, as it is quite notorious that even in a few months it ranges from 3 to 15 per cent. Enderby declares, that for a period of twenty-four years during the suspension of cash payments, there was but one panic, and of this panic M'Culloch says, that "the run upon the bank did not arise from any over issue of paper, but grew entirely out of political causes." Are we to consider that these facts are not to be attended to? and does past experience go for nothing? Are all men who do not place their whole and entire confidence in gold, and in contradiction to positive facts vote for its continuance as the sole standard, to be counted among the number of incurably insane?

This subject must be met like any other under discussion, by arguments based on facts, and not by theory alone. One says, gold is the most proper standard, for its value does not change; now this is in direct contradiction to fact; for on the continent, gold, or rather a sovereign, may be worth nineteen shillings, and a short time afterwards it will fetch twenty-five shillings, and the worst part of the matter is, that this extra five shillings is not to be had in England, therefore the public are only the losers by the contracted

currency, and a few speculators reap the advantage by exporting the gold.

We think it may be laid down as a rule, that anything which is an article of commerce or speculation, as gold is, must be subject to variation in value, and therefore is not fit to be the standard, which should have as little change in its nature as possible.

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